

## ARE THE COMPETITION RULES IN THE WTO TRIPS AGREEMENT ADEQUATE?

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### ABSTRACT

In connection with the run-up to the Cancun Ministerial Conference, the author was asked whether there are grounds for recommending amendment of WTO TRIPS Agreement rules addressing competition. The general conclusion of the study is that the TRIPS Agreement in its present form provides substantial discretion to WTO Members in the formulation and application of competition rules regulating intellectual property, and this arrangement serves the best interests of developed and developing countries. Potential amendments were considered across a matrix of interested country groups: North-North, North-South, South-North and South-South. Although country groups with different interests might seek to modify TRIPS competition-related rules to their perceived advantage, there is little reason to believe that consensus would be reached on such changes. The study acknowledges that global welfare benefits might flow from a more highly integrated international competition regime with powers to investigate and enforce agreed upon rules. There is, however, little identifiable near-term impetus for building such a regime, whether at the WTO or elsewhere. Competition laws of certain developed countries expressly exempt conduct with wholly foreign effects from the application of rules regulating anti-competitive practices, including those concerning intellectual property. Such exemptions appear inconsistent with advocacy of liberal market principles, and they are damaging to developing country interests. As part of the Doha Development Round commitment to developing countries, a decision by developed countries to eliminate these exemptions would be constructive.

### I. COMPETITION RULES IN THE TRIPS AGREEMENT

#### A. Brief historical background

Article 46 of the 1948 Havana Charter for the International Trade Organization (ITO) contained an undertaking by Members to prevent restraints on competition (and to cooperate with the Organization in preventing such restraints), and permitted a Member to bring a complaint to the Organization on the basis that another Member was failing to deal with

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a competition-related situation. Included within the specific kinds of practices which the Organization's dispute settlement procedure would have addressed was commercial conduct:

3(e) preventing by agreement the development or application of technology or invention whether patented or unpatented;

(f) extending the use of rights under patents, trade marks or copyrights granted by any Member to matters which, according to its laws and regulations, are not within the scope of such grants, or to products or conditions of production, use or sale which are likewise not the subjects of such grants.<sup>1</sup>

The ITO would have had the authority to 'request each Member concerned to take every possible remedial action, and . . . recommend to the Members concerned remedial measures to be carried out in accordance with their respective laws and procedures'.<sup>2</sup> The Organization would have prepared, distributed to Members, and made public a report on its decisions, and the remedial actions taken by Members.<sup>3</sup>

From the late 1960s through the early 1980s there was considerable attention to the relationship between IPRs, transfer of technology, and competition in the context of debate on a New International Economic Order. In 1980, the UN General Assembly adopted as a resolution 'The Set of Multilaterally Agreed Equitable Principles and Rules for the Control of Restrictive Business Practices', which includes rules relating to abusive practices in the field of IPRs.<sup>4</sup>

The negotiating history of the TRIPS Agreement reflects concerns expressed by developing countries with the potential market restricting/anticompetitive effects of IPRs.<sup>5</sup> Proposals to incorporate provisions addressing the potential anticompetitive effects of IPRs originated with the developing countries. For example, draft Article 43, para 2B (developing) of the Brussels Ministerial (December 1990) Text included more specific references to anticompetitive practices and remedies than were ultimately incorporated in Article 40.2, TRIPS Agreement.

*Article 43*

1. PARTIES agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.

<sup>1</sup> Havana Charter for an International Trade Organization, United States Conference on Trade and Employment, held at Havana, Cuba, 21 November 1947 to 24 March 1948, Final Act and Related Documents (March 1948), at Chapter V, Restrictive Business Practices, Art. 46. See Frederick M. Abbott, 'Public Policy and Global Technological Integration: An Introduction', in F. M. Abbott and D. Gerber (eds), *Public Policy and Global Technological Integration* (Kluwer, 1997) 3.

<sup>2</sup> *Id.*, Arts. 8 & 48(7).

<sup>3</sup> *Id.*, Art. 48(9) & (10).

<sup>4</sup> See, e.g., Section D4, Reprinted in 19 Int'l Leg. Mat. (1980) 813.

<sup>5</sup> See, e.g., Communication from India of 10 July 1989 MTN.GNG/NG11/W/37 sub. 2 and VI.

- 2B. PARTIES may specify in their national legislation licensing practices or conditions that may be deemed to constitute an abuse of intellectual property rights or to have an adverse effect on competition in the relevant market, and may adopt appropriate measures to prevent or control such practices and conditions, including non-voluntary licensing in accordance with the provisions of Article 34 and the annulment of the contract or of those clauses of the contract deemed contrary to the laws and regulations governing competition and/or transfer of technology. The following practices and conditions may be subject to such measures where they are deemed to be abusive or anti-competitive: (i) grant-back provisions; (ii) challenges to validity; (iii) exclusive dealing; (iv) restrictions on research; (v) restrictions on use of personnel; (vi) price fixing; (vii) restrictions on adaptations; (viii) exclusive sales or representation agreements; (ix) tying arrangements; (x) export restrictions; (xi) patent pooling or cross-licensing agreements and other arrangements; (xii) restrictions on publicity; (xiii) payments and other obligations after expiration of industrial property rights; (xiv) restrictions after expiration of an arrangement.<sup>6</sup>

The Brussels Ministerial Text of Article 8.2 differed from the final TRIPS Agreement text, using a ‘do not derogate from the obligations’ formula instead of the final ‘consistent with the provisions of’ formula as the control mechanism.<sup>7</sup>

## B. TRIPS provisions

There are three provisions of the TRIPS Agreement expressly addressing competition. The first, Article 8.2, acknowledges the right of Members to act against abuse of IPRs, provided such action is consistent with the provisions of the Agreement.

### Article 8, Principles

2. Appropriate measures, provided that they are consistent with the provisions of this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology.

<sup>6</sup> Draft Final Act Embodying the Results of the Uruguay Round of Multilateral Trade Negotiations, Trade-Related Aspects of Intellectual Property Rights, Including Trade in Counterfeit Goods, MTN.TNC/W/35/Rev. 1, 3 December 1990 (‘Brussels Ministerial Text’). The TRIPS Negotiation Group Chairman noted in his comments: ‘Further basic issues needing to be resolved are ... the content of the provisions on the Control of Abusive or Anti-Competitive Practices in Contractual Licences (Section 8 of Part II).’

<sup>7</sup> The Brussels Ministerial Text provided:

### Article 8: Principles

2. Appropriate measures, provided that they do not derogate from the obligations arising under this Agreement, may be needed to prevent the abuse of intellectual property rights by right holders or the resort to practices which unreasonably restrain trade or adversely affect the international transfer of technology. *Id.*

The second, Article 40, is a more detailed provision that, by its title and terms, is addressed to anticompetitive licensing practices or conditions.

#### SECTION 8: CONTROL OF ANTI-COMPETITIVE PRACTICES IN CONTRACTUAL LICENCES

##### *Article 40*

1. Members agree that some licensing practices or conditions pertaining to intellectual property rights which restrain competition may have adverse effects on trade and may impede the transfer and dissemination of technology.
2. Nothing in this Agreement shall prevent Members from specifying in their legislation licensing practices or conditions that may in particular cases constitute an abuse of intellectual property rights having an adverse effect on competition in the relevant market. As provided above, a Member may adopt, consistently with the other provisions of this Agreement, appropriate measures to prevent or control such practices, which may include for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing, in the light of the relevant laws and regulations of that Member.<sup>8</sup>

Article 31(k), TRIPS Agreement, acknowledges that compulsory licensing is a remedy available to correct abuse of patents,<sup>9</sup> providing:

- (k) Members are not obliged to apply the conditions set forth in subparagraphs (b) and (f) where such use is permitted to remedy a practice determined after judicial or administrative process to be anti-competitive. The need to correct anti-competitive practices may be taken into account in determining the amount of remuneration in such cases. Competent authorities shall have the authority to refuse termination of authorization if and when the conditions which led to such authorization are likely to recur;

<sup>8</sup> Article 40, TRIPS Agreement, continues:

3. Each Member shall enter, upon request, into consultations with any other Member which has cause to believe that an intellectual property right owner that is a national or domiciliary of the Member to which the request for consultations has been addressed is undertaking practices in violation of the requesting Member's laws and regulations on the subject matter of this Section, and which wishes to secure compliance with such legislation, without prejudice to any action under the law and to the full freedom of an ultimate decision of either Member. The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.

4. A Member whose nationals or domiciliaries are subject to proceedings in another Member concerning alleged violation of that other Member's laws and regulations on the subject matter of this Section shall, upon request, be granted an opportunity for consultations by the other Member under the same conditions as those foreseen in paragraph 3.

<sup>9</sup> Article 31(l), TRIPS Agreement, addresses the problem of dependent patents whose exploitation might otherwise be blocked. This is also a competition-related provision.

Article 31(k) is the only part of the TRIPS compulsory licensing rules that incorporates a waiver of the condition that compulsory licenses must be issued ‘predominantly’ for the supply of the domestic market.<sup>10</sup>

At an indirect level, Article 6, TRIPS Agreement, as confirmed by the Doha Declaration on the TRIPS Agreement and Public Health, authorizes each WTO Member to adopt its own policies and rules on the subject of exhaustion of rights.

#### Article 6

##### Exhaustion

For the purposes of dispute settlement under this Agreement, subject to the provisions of Articles 3 and 4 nothing in this Agreement shall be used to address the issue of the exhaustion of intellectual property rights.

#### *Doha Declaration*

5(d) The effect of the provisions in the TRIPS Agreement that are relevant to the exhaustion of intellectual property rights is to leave each Member free to establish its own regime for such exhaustion without challenge, subject to the MFN and national treatment provisions of Articles 3 and 4.<sup>11</sup>

The exhaustion principle is fundamentally directed at maintaining competitive markets in trade.<sup>12</sup>

The general recognition of flexibility in implementing methods in Article 1.1, TRIPS Agreement, will apply in the competition context.

The first paragraph of the preamble to the agreement notes that IPRs should not themselves act to distort trade:

*‘Desiring* to reduce distortions and impediments to international trade, and taking into account the need to promote effective and adequate protection of intellectual property rights, and to ensure that measures and procedures to enforce intellectual property rights do not themselves become barriers to legitimate trade;

Part III, TRIPS Agreement, on enforcement of IPRs is of course generally applicable to enforcement in the competition context as well requiring, for example, due process of law.

### **C. Interpretation**

The TRIPS Agreement provides WTO Members with substantial discretion in the development and application of competition law to arrangements and

<sup>10</sup> Of course, compulsory licensing is not the only remedy available for anticompetitive abuse of IPRs, which may include, *inter alia*, injunction and fines. This paper was presented prior to adoption on 30 August 2003 of the Decision on Implementation of Paragraph 6 of the Doha Declaration on the TRIPS Agreement and Public Health, which provides for a waiver of the Article 31(f) condition.

<sup>11</sup> WTO Ministerial Conference, Declaration on the Trips Agreement and Public Health, adopted 14 November 2001, Fourth Session, Doha, WT/MIN(01)/DEC/2 (20 November 2001).

<sup>12</sup> See, e.g., Frederick M. Abbott, ‘First Report (Final) to the Committee on International Trade Law of the International Law Association on the Subject of Parallel Importation’, 1 JIEL (1998) 607.

conduct in the field of IPRs. The text of Article 8.2 requires that competition measures be ‘consistent’ with the TRIPS Agreement, and this suggests that competition law should not be used as a disguised mechanism for undermining the basic rights accorded under it. Measures may be taken to prevent abuse of IPRs, or resort to practices that ‘unreasonably’ restrain trade or that ‘adversely affect’ the ‘international transfer of technology’. The question whether a particular practice ‘unreasonably’ restrains trade involves a classical balancing test taking into account the effects of conduct on consumers or industrial policy interests, and has been applied with significantly different results not only in different legal systems, but in the same legal systems over time. From the standpoint of competition rules customarily applied to IPRs-related practices in developed and developing Members, it is doubtful that such application in good faith will be limited by the text of Article 8.2.

Article 40.2 expressly envisions that Members may ‘specify’ in their legislation licensing practices that ‘may in particular cases constitute an abuse’ of IPRs. This language encompasses the adoption of *per se* rules in respect to certain types of licensing practices, such as applied by the EC in its technology transfer regulation.<sup>13</sup> The ‘in particular cases’ language, which is acknowledged to represent less than ideal drafting, is intended to require that Members define such practices on the basis of their competitive merits, rather than in an overly abstract manner (and not to prevent the adoption of *per se* rules).<sup>14</sup>

While there might be ways to improve the drafting of Articles 8.2 or 40 so as to improve clarity, as a practical matter these provisions do not appear to substantially impinge upon Member discretion in the formulation and application of competition rules to IPRs, and it is doubtful that a new set of negotiations is needed to establish the presence of discretion from a legal standpoint. Moreover, the Doha Declaration on the TRIPS Agreement and Public Health, paragraph 5, has confirmed the flexibility inherent in parallel trade and compulsory licensing rules.

The TRIPS Agreement does not limit the remedial measures that may be imposed by competition authorities and courts. For example, it does not preclude the award of treble damages that may be imposed as a remedy in US

<sup>13</sup> See discussion of EC technology transfer regulation, below, nn 19–24.

<sup>14</sup> See Part 3, Intellectual Property Rights and Competition, in ‘UNCTAD-ICTSD TRIPS Resource Book: An Authoritative and Practical Guide to the TRIPS Agreement’, at <http://www.iprsonline.org> (2003).

antitrust proceedings. Remedies may include injunction, damages, fines, and, as noted above, compulsory licensing.<sup>15</sup>

The presence of discretion from a legal standpoint does not assure that developing Members will not come under pressure from developed Members should they choose to exercise it. Developed Members with some regularity assert political and economic pressure on developing Members not to act in ways permitted under WTO agreements.

It may not be the most productive use of this brief paper and the attention of this distinguished audience to focus on narrow interpretive issues that are likely to influence Members only at the margins.<sup>16</sup> The real question and centrepiece for this discussion is: what would or might be gained from changing the present rules?

## II. PROSPECTIVE NEW COMPETITION RULES FOR TRIPS

### A. Trade and competition agreement

There is a general question whether a multilateral or plurilateral trade and competition agreement should be agreed upon at the WTO. While such evaluations are to a certain extent subjective, there appears to remain a fairly wide level of divergence regarding what Members think might or ought to be done regarding such an agreement. Developing Members are worried that national treatment rules will be used to force changes to national industrial policy, including preferences to small and medium enterprises (SMEs). Members are unable to agree on what constitutes a 'hard core cartel' (having moved from focusing on the 'hard export cartel'), and whether such cartels could be justified in some circumstances based on economic efficiency. From the developed country side, there appears to be agreement that developing Members should adopt and implement competition laws (where they have not already done so), that measures should be transparent, and that national treatment rules should apply. While there seems to be agreement that restrictive business practices in the developed Members act to the detriment of developing Members, there is little in the way of explanation why those practices are presently tolerated in developed Members and why it should be necessary to adopt a multilateral agreement to address this problem. The antitrust laws of the United States, for example, expressly exempt US-based

<sup>15</sup> There are certain conditions placed on compulsory licensing as antitrust remedy, but the main effect is to allow reduction of remuneration based on the remedial nature of the license.

<sup>16</sup> A detailed analysis of the 'control' language of the competition provisions can be found at Part 3 of the UNCTAD-ICTSD TRIPS Resource Book, above, n 14.

anticompetitive conduct that affects only foreign markets, tolerating and encouraging the very conduct about which concern is expressed.<sup>17</sup>

However, the purpose of this paper is not to consider the prospective contents, or advantages and disadvantages, of a multilateral agreement on trade and competition, but whether changes to the competition rules in the TRIPS Agreement are necessary or desirable.

## B. The locus of change

A threshold question is whether any changes to TRIPS-related competition rules would be made in the text of the TRIPS Agreement, or would instead be embodied in a separate trade and competition agreement. There is nothing in the WTO agreements to preclude competition rules with effect on TRIPS being set out in a separate agreement and cross referenced. As a practical matter, absent an express exclusion, it is inevitable that competition rules set out in a trade and competition agreement would affect TRIPS since IPRs regulation is traditionally within the general scope of competition law. For example, while the US Department of Justice and Federal Trade Commission have issued antitrust guidelines for the licensing of intellectual property,<sup>18</sup> these guidelines are based on interpretation of Sherman and Clayton Act rules and jurisprudence, and not on a body of rules specific to IPRs. Similarly, while the EC has issued fairly extensive guidance on the licensing of technology, this guidance is framed as an application of Articles 81 and 82, EC Treaty, and not on a separate body of IPRs-specific competition law.<sup>19</sup>

<sup>17</sup> The Sherman Act provides, for example:

15 USCS § 6a (2003)

§ 6a. Conduct involving trade or commerce with foreign nations

This Act [15 USCS §§ 1 et seq., commonly 'the Sherman Anti-Trust Act'] shall not apply to conduct involving trade or commerce (other than import trade or import commerce) with foreign nations unless –

(1) such conduct has a direct, substantial, and reasonably foreseeable effect –

(A) on trade or commerce which is not trade or commerce with foreign nations, or on import trade or import commerce with foreign nations; or

(B) on export trade or export commerce with foreign nations, of a person engaged in such trade or commerce in the United States; and

(2) such effect gives rise to a claim under the provisions of this Act [15 USCS §§ 1 et seq.], other than this section.

If this Act [15 USCS §§ 1 et seq.] applies to such conduct only because of the operation of paragraph (1)(B), then this Act [15 USCS §§ 1 et seq.] shall apply to such conduct only for injury to export business in the United States.

<sup>18</sup> US Dept. of Justice/Fed. Tr. Comm., Antitrust Guidelines for the Licensing of Intellectual Property (1995), available at <http://www.usdoj.gov/atr/public/guidelines/ipguide.htm>.

<sup>19</sup> Commission Regulation (EC) No 240/96 of 31 January 1996 on the application of Article 85(3) of the Treaty to certain categories of technology transfer agreements, Official journal No. L 031, 09/02/1996 P. 0002–0013 (reference to unadjusted EC Treaty numbering) ('1996 Technology Transfer Regulation'). On 7 April 2004, the European Commission announced the adoption of a new block exemption on technology transfer agreements under Article 81(3) of the EC Treaty. Commission Regulation (EC) No 772/2004 of 27 April 2004 on the application of Article 81(3) of the Treaty to categories of technology transfer agreements, OJ L 123, 27 April 2004, pp 11–17 ('2004 Technology Transfer Regulation').

Changes directly to TRIPS Agreement rules presuppose a reopening of the agreement, and whether that is desirable will depend on the perspective of the participating Members. Generally speaking, the imbalance of bargaining power at the WTO has made developing Members wary of reopening TRIPS. Reopening might be used by the US-EC-Japan-Swiss group to lobby for increased levels of protection, which are likely to further exacerbate the imbalanced static wealth transfer effects already in place.

At the WTO, parties bargain in their own interests, with Members typically representing their producers. For this reason, it is perhaps most useful to look first at prospective changes to TRIPS competition rules across a matrix of potential interests, with discussion of global public welfare effects reserved until later on.

### **C. North-North**

As noted above, Articles 6, 8.2, and 40 of the TRIPS Agreement leave Members with substantial discretion as to whether and how to apply competition rules to IPRs-based restraints of trade and abuse of dominant position. The United States and EC over time have taken substantially different views on appropriate industrial policy. It seems doubtful that competition authorities in either the US or EC would be anxious to formally harmonize or approximate rules in the IPRs field since this would involve a reduction of discretion. It is, in fact, difficult to see why, from the perspective of the US or EC, approximation or harmonization – that is, ‘freezing the industrial policy pendulum’ – would be desirable.

In the 1960s and 1970s, US competition law authorities and courts were concerned that IPRs had a direct correlation with market power and potential abuse, and antitrust analysis began with a presumption that IPRs conferred market power. By the mid-1980s, and as reflected in the 1995 Licensing Guidelines, this perception shifted, and IPRs are presently treated as any other form of property (whether real, personal, or intangible), without the market power presumption. With few exceptions – price fixing, horizontal market segmentation, and output restraints (which also apply in goods markets) – technology acquisition and licensing agreements are evaluated under a rule of reason approach.<sup>20</sup> The rule of reason approach extends, for example, to exclusive grantback provisions. For the past two years the Federal Trade Commission has been studying the effects of IPRs on innovation markets in the United States, with evident concern that overprotection of IPRs may present risks to future innovation. This may signal the beginning of a shift towards another view of IPRs and market power, though conclusions are not yet reached.

<sup>20</sup> The DOJ/FTC Licensing Guidelines separately consider IPRs as they affect goods markets, technology markets, and innovation markets. The technology market refers to licensing and acquisition of existing technologies, while the innovation market essentially refers to the market in future R&D.

In April 2004 the EC revised its approach to the regulation of technology markets, enhancing flexibility and more closely approximating the US approach that de-emphasizes adverse presumptions toward licensing restrictions, up to certain levels of market power.<sup>21</sup> Prior to this revision, the EC took a substantially more direct approach to the regulation of technology markets.<sup>22</sup> Even under the new EC regime, certain important distinctions with respect to the US approach remain, such as the EC's continuing *per se* disapproval of exclusive grantbacks.<sup>23</sup> This represents yet again a swing in the pendulum of regulatory approach, this time on the European side.

With respect to licensing, both the US and EC use percentage of market formulas for establishing presumptions of market concentration in respect to technology and innovation.<sup>24</sup> The formulas are somewhat different, though this does not necessarily imply that competition authorities in the two Members would reach different results in a given case.

The potential advantage of stronger North-North-oriented TRIPS and competition rules might be to force some industrialized countries to apply competition rules more vigorously (e.g., to redress type of enforcement failures alleged in *Japan – Film and Photographic Paper*).<sup>25</sup> Yet even if more aggressive enforcement policies in some industrialized Members would be desirable, producer interests in the US and EC are unlikely to support the negotiation of strong enforcement obligations that may be used for the basis of investigations into their own activities.

In 1998, I commented on the prospects for a WTO trade and competition agreement in respect, *inter alia*, to the then-pending controversy between the US and EC involving the Boeing-McDonnell Douglas merger.<sup>26</sup> I asked, rhetorically, whether and what issue involved in that controversy would a WTO trade and competition agreement propose to 'cure'? I would ask today whether there is any defect in the TRIPS Agreement competition rules from a North-North perspective that we might propose to 'cure' in multilateral negotiations? From a pragmatic standpoint, it is difficult to see what that might be.<sup>27</sup>

<sup>21</sup> See 2004 Technology Transfer Regulation, n 19, above.

<sup>22</sup> These exempted from competition law scrutiny a range of licensing practices, impose certain *per se* prohibitions, and leave other areas for which parties must notify and effectively seek clearance from the Commission. See 1996 Technology Transfer Regulation, above, n 19, at, e.g., Arts. 1–4.

<sup>23</sup> Art. 5(1), 2004 Technology Transfer Directive.

<sup>24</sup> *Id.*, e.g., Arts. 3, 7–8; DOJ/FTC, at, e.g., section 4.3 (Antitrust 'safety zone').

<sup>25</sup> *Japan – Measures Affecting Consumer Photographic Film and Paper*, Report of the Panel, WT/DS44/R, 31 March 1998.

<sup>26</sup> Frederick M. Abbott, 'The Prospects for World Competition Law: An American Perspective', address to the German-American Lawyers Association Cologne, Germany, 9 November 1998 (unpublished, in author's files).

<sup>27</sup> This observation is made in light of the substantial ongoing cooperation between US and EC competition authorities under bilateral agreement.

## D. North-South

Developed Members consistently evidence two principal objectives in WTO negotiations with developing Members. The first is to enhance their access to developing Member markets. The second is to prevent developing Members from exercising discretion in a way which would be considered unfavourable to the developed Members.

Although the practice appears presently out of favour,<sup>28</sup> some developing Members have sought to impose on the importation of goods or the undertaking of direct investment conditions requiring transfer of technology, typically in the form of patent and know-how licensing to a local enterprise.<sup>29</sup> This is not a restrictive licensing practice as such, nor does it involve use of IPRs for anticompetitive purposes. To the extent such practices are regarded as discriminatory, they are for the most part to be dealt with under the GATT.<sup>30</sup> Some of these conditions have been addressed in the Agreement on Government Procurement.<sup>31</sup> It is difficult to place this subject matter within the subject matter scope of the TRIPS Agreement.

From a market access standpoint, developing Member enterprises do not seem likely for the near to medium term to be using IPRs licensing agreements – such as pooling arrangements or R&D joint ventures – as a means to restrict access of foreign goods or services to local markets. There would not appear to be a pressing need to develop additional rules to address potential future activities of this nature.

Government preferences in the grant of research funding might be considered an anticompetitive practice in the IPRs field. This is an issue that might be addressed by developing Members in relation to developed Members. It is doubtful there is significant concern in developed Members with respect to such grants in developing Members.

Developed Members might be concerned with potential ‘overaggressive’ pursuit of competition-based claims in the field of patents, and developed Members might seek to limit the potential exercise of discretion. So far, the principal limitation in the TRIPS Agreement is that competition measures be consistent with it. This is a ‘soft’ limitation. It would conceptually be possible for developed countries to seek negotiation of a list of prohibited or presumptively prohibited anticompetitive restraints that would act as the

<sup>28</sup> This is not based on an empirical study, but rather on the author’s general perception that the volume of complaints about such practices has subsided.

<sup>29</sup> ‘Civil offsets’ or ‘offsets’ appear to remain a standard feature in military equipment procurement agreements but, as above, this is an impressionistic observation. Offsets in military procurement are by no means confined to developed-developing country arrangements, appearing to be a standard feature of developed-developed country procurement arrangements.

<sup>30</sup> This set of issues is addressed in detail in Frederick M. Abbott, ‘Reflection Paper on China in the World Trading System: Defining the Principles of Engagement’, in F. M. Abbott (ed), *China in the World Trading System* 1, 13–18 (Kluwer, 1998).

<sup>31</sup> These concerns have been raised, for example, in respect to purchases of civil aircraft, and were addressed at one stage under the Agreement on Trade in Civil Aircraft. Id.

outer limit of discretion for competition authorities in developing Members. Such an exercise seems unlikely to succeed in light of the need to achieve consensus on a list of practices.

Developing Members might seek to impose conditions on technology licenses in favour of local enterprise; for example, requirements that the licensee be trained in the use of the technology and be permitted to use it in competition with the licensor during or after the license term. Although ongoing demands from developing Members for improved technology transfer might appear to favour such conditions, this does not mean that developed Members may not view TRIPS and competition negotiations as an opportunity to limit such practices. Again, however, there is little prospect for consensus agreement on such limitations.

To be clear, this report is not recommending that developed WTO Members pursue any of the foregoing negotiating objectives, but rather is suggesting the types of outcomes that such Members might pursue in TRIPS and competition negotiations.

### E. South-North

Developing countries presently have substantial discretion in the formulation and application of TRIPS and competition rules within their own territories. In many respects this may be the ideal position for them, and may argue against attempting to negotiate any new TRIPS and competition rules.

It is an important feature of US antitrust law that conduct which only affects external markets is not subject to scrutiny. In the general context of a multilateral competition agreement, it would be desirable from the standpoint of developing Members to obtain agreement that this sort of legislation is prohibited. That is, it is not permitted to discriminate against foreign markets in the application of competition rules. This general principle could well be transposed more specifically to the TRIPS and competition arena. That is, for example, licensing practices that are not tolerated in the home market will not be tolerated in a foreign market, and the enterprise subject of the complaint will face penalties in the home market for engaging in prohibited conduct overseas.<sup>32</sup>

As an illustration, the US Federal Trade Commission recently completed an in-depth study of so-called 'Orange Book' practices by certain pharmaceutical enterprises.<sup>33</sup> This study found that patents had been grossly abused at the Food and Drug Administration to prevent the entry of generic drugs

<sup>32</sup> This may raise difficult issues in the application of competition law. A *rule of reason* analysis will include such matters as a determination of the relevant market and the conditions of competition in that market. The fact that an analysis would be difficult does not mean it should be avoided. *Per se* rules might assist when applied to conduct abroad.

<sup>33</sup> US Federal Trade Commission, *Generic Drug Entry Prior to Patent Expiration: An FTC Study* (2002) <http://www.ftc.gov/os/2002/07/genericdrugstudy.pdf>.

onto the US market. A principal violator company has been the subject of consent injunction and has paid substantial fines.<sup>34</sup> The US market is subject to relative close monitoring by competition authorities and public interest groups. Yet potential competitive abuse of patents in foreign markets is not within the scope of US antitrust law (absent a direct and substantial impact on the US market, including on US exporters), and equivalent capacities for monitoring and enforcement would be the exception in developing Members. Thus, if US law prohibited equivalent anticompetitive acts in foreign markets this might yield significant benefits to developing Members.<sup>35</sup>

On 14 June 2004, the US Supreme Court rendered a decision in *Hoffmann-La Roche v Empagran*,<sup>36</sup> in which it confirmed that:

The FTAIA seeks to make clear to American exporters (and to firms doing business abroad) that the Sherman Act does not prevent them from entering into business arrangements (say, joint selling arrangements), however anticompetitive, as long as those arrangements adversely affect only foreign markets.<sup>37</sup>

The Court held that a plaintiff injured solely by anticompetitive conduct outside the United States could not sue a defendant within the United States, even if that same defendant had caused independent anticompetitive harm in the United States to another person. The Court's holding was grounded in 'comity' concerns; that foreign nations would be offended if the United States acted to regulate conduct within their territories absent a direct effect on the United States. Particular concern was expressed that foreign nations may take offense at the imposition of treble damages on their nationals as a remedy for Sherman Act violations. The Court acknowledged that comity considerations could be evaluated on a case-by-case basis, but said that this approach 'is too complex to prove workable'.

Comity concerns were expressed to the Court in amicus briefs from Canada, Germany and Japan, and it may be that competition authorities in these countries are ready and willing to police the conduct of American companies within their territories. Friendly relations among nations might allow them to do that in the way they deem most appropriate. It is not so clear that giving a 'green light' to companies doing business in the United States for engaging in conduct 'however anticompetitive' in developing countries serves the interests of those countries, or of the international community. Unlike in

<sup>34</sup> See *States and FTC Settle with Bristol-Myers Squibb in Buspar Monopolization Suit*, 28(2) Antitrust Multistate Review; page 3, National Association of Attorneys General Antitrust Report, February 2003 (Lexis-Nexis).

<sup>35</sup> As of April 2004 there is a decision by the US Supreme Court pending regarding whether a plaintiff may bring suit in the United States for antitrust injuries occurring in a foreign market if the predicate of a direct and substantial effect in the US market is satisfied, even if that predicate is not satisfied as to the particular plaintiff (*Hoffmann-La Roche v Empagran*, 124 S. Ct. 966, cert. granted).

<sup>36</sup> 124 S. Ct. 2359; 2004 US LEXIS 4174 (2004).

<sup>37</sup> *Id.*, at \*10–11 (preliminary pagination).

Canada, Japan and Germany, competition authorities in many developing countries might find it diplomatically problematic to assess the conduct of and impose penalties on General Electric or Pfizer. Developing country governments might not be so sanguine about their capacity to prevent US-based export cartels from extracting anticompetitive rents from their economies. While the Supreme Court might have allowed a case-by-case balancing of comity considerations, it interpreted the will of the Congress to literally exempt the conduct of companies doing business in the US from ‘bad behavior’ solely engaged in abroad. This does not seem to send a promising message from the principal advocate of ‘liberal trade’ to the large majority of developing countries that do not have the resources needed to effectively police anticompetitive conduct within their borders.

Article 40.3 of the TRIPS Agreement provides for consultations and furnishing of non-confidential information, and for furnishing other information subject to the national law of the requested Member.<sup>38</sup> It is difficult to know the extent to which the national law of a Member will permit (or not) the mandatory furnishing of business information to the authorities (or private complainants) in another Member. Developing Members pursuing competition cases may have great difficulty obtaining critical information from private enterprises in developed Members, and a stronger form of cooperation agreement relating to such information might usefully be negotiated. However, it must be recognized that such information rules would run in both directions, and developing Members would also need to consider the extent to which they would be willing to furnish information in equivalent settings.<sup>39</sup>

The TRIPS Agreement contains a limited set of illustrative anticompetitive licensing practices: ‘for example exclusive grantback conditions, conditions preventing challenges to validity and coercive package licensing’ (Article 40.2). Because developing Members come under pressure from developed Members when they seek to act against the latter’s perceived interests, there is an argument to be made for expanding the list of practices that may be considered anticompetitive. This could provide assurance to developing Members that actions taken against such conditions could not be successfully challenged before the Appellate Body. However, there are two arguments against pursuing expansion of the list. First, the negotiations might well result

<sup>38</sup> ‘... The Member addressed shall accord full and sympathetic consideration to, and shall afford adequate opportunity for, consultations with the requesting Member, and shall cooperate through supply of publicly available non-confidential information of relevance to the matter in question and of other information available to the Member, subject to domestic law and to the conclusion of mutually satisfactory agreements concerning the safeguarding of its confidentiality by the requesting Member.’ Article 40.3, TRIPS Agreement.

<sup>39</sup> An argument might be made in terms of special and differential treatment in the field of evidence sharing. An argument might be made that there is less capacity for local investigation in developing Members.

in reducing the flexibility presently enjoyed by developing Members. Second, if a developing Member is going to be threatened or intimidated by a developed Member for using flexibility existing in the TRIPS Agreement, adding text that is more supportive may not remedy the problem. The problem is rooted in an imbalance in political and economic power, not in the language of the TRIPS Agreement.

The US Patent Act establishes preferences that patents resulting from federally-funded research be licensed to parties that will produce in the United States.<sup>40</sup> This is arguably a legislative restriction on patent licensing that discriminates against foreign enterprises. A developing Member objective in TRIPS and competition negotiations might be to subject such licensing practices to further scrutiny.

Developing Members differ widely in their capacity to address competition issues. Some have relatively well developed legal and prosecutorial infrastructure. In others, such infrastructure is very weak. Perhaps the most important aspect of any competition agreement at the WTO would be a hard commitment on financial contribution from the developed Members to training of competition law authorities and the furnishing of suitable investigatory facilities. Since the TRIPS Agreement has an essentially satisfactory set of competition rules at present, there is no need to change the TRIPS rules in order to establish training and infrastructure programs. A critical aspect is to assure that training and infrastructure support be provided by persons whose interests are on the side of developing Members.

It is important to recall that some developing Members have in the past attempted to rebalance the international distribution of technological capacity through legislative means, in particular through rules governing technology licensing.<sup>41</sup> That experience should be studied carefully – in particular regarding the effects of a political/economic power imbalance on legislative solutions – as a prelude to considering additional rules in this area.

## F. South-South

Might developing countries in the TRIPS and competition context benefit from additional rules in relations among themselves? Competitive markets restraints in the field of TRIPS might as readily affect developing Members as among themselves as they do in relations with developed Members, except

<sup>40</sup> Section 204 of the US Patent Act, e.g., provides, *inter alia*:  
no small business firm or non-profit organization which receives title to any subject invention [i.e., based on federally funded research] and no assignee of any such small business firm or non-profit organization shall grant to any person the exclusive right to use or sell any subject invention in the United States unless such person agrees that any products embodying the subject invention or produced through the use of the subject invention will be manufactured substantially in the United States.

<sup>41</sup> Recalling, in particular, Decisions 84 and 85 of the Andean Commission (1974).

that developing Members are at present largely importers of technology protected by IPRs.

The starting point is existing discretion to develop and apply rules, and this may be the optimal situation.

Developing Members might gain from strengthened rules on furnishing of evidence, just as in South-North relations, bearing in mind again that this would be a two-way street.

Training of personnel and improvements in infrastructure may be just as useful in South-South relations as in South-North relations.

### **G. Global public welfare**

It is reasonable to ask what might be the optimal TRIPS and competition result leaving aside the perspective of Member self-interest, and viewing the subject from the perspective of global public welfare. In this approach, TRIPS competition rules would seek to assure that producers did not obtain IPRs monopoly rents in excess of their economic contribution to social welfare, and WTO Members would cooperate in implementing this objective. Consumer protection and human rights interests (e.g., right to health) would play a role in implementation of competition rules at least equivalent to that of industrial policy interests. The grant and enforcement of patents in developed Members would not presuppose the grant and enforcement of patents in developing Members because of the different situations in the respective WTO Members. In developing Members, competition on the basis of marginal costs would be the objective in socially sensitive sectors of the economy.

Accomplishment of global public welfare maximizing objectives might require elaboration of a set of prohibited anticompetitive practices addressed to conduct occurring in any territory. Such a set of rules might take into account the differential capacities of enterprises based in countries at different levels of development. There might be created a multinational investigatory and enforcement body with power to compel production of evidence, to refer cases to a neutral tribunal, and to impose remedies.

Leaving aside concerns that might legitimately be raised regarding the implications of such multilateral rules and enforcement mechanisms from the standpoint of state sovereignty and individual rights, there is little reason to believe that the international community is prepared to embark on a law-making venture of such scope. In relation to the TRIPS Agreement and prospective changes to competition rules it is more practical to focus attention on whether incremental modifications are necessary or desirable.

### **CONCLUSION**

The present situation under the TRIPS Agreement provides WTO Members with substantial discretion in the development and application of competition rules. A survey of potential interests from the perspective of differing

circumstances does not suggest compelling grounds for change. However, as a 'down-payment' by developed Members in the Doha Development Agenda, they might agree to reform their competition laws such that exemptions are not provided for conduct undertaken abroad. If developed Members are serious about the pursuit of market liberalization, they should accept that it is entirely inconsistent with that objective to tolerate and encourage their enterprises to adopt restrictive business practices in foreign markets.